April 3, 2009

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Dear Members of the Board:

I appreciate the opportunity to comment on the National Credit Union Administration's ("NCUA's") Advanced Notice of Proposed Rulemaking ("ANPR") regarding corporate credit unions. I am the President of a natural person credit union that represents more than 5,000 members predominately in the State of Colorado.

Before addressing the specific questions posed by the ANPR, I believe it is important for the NCUA Board members to consider some overall important details. This crisis was not originated within the Corporate credit unions or natural person credit unions. Corporate credit unions and NPCUs have conducted business with their members responsibly by not engaging in predatory or misleading lending practice and followed regulations.

The problems at the Corporates originated in the for-profit banking and mortgage market place and have filtered down through AAA rated investments purchased by the industry.

Additional regulation of the Corporate industry may or may not have prevented the situation facing our industry today, as it originated in the for-profit sector. As such, a careful approach should be taken when making changes to the regulations including an analysis of the events that occurred, a review of potential new regulation, and the affects of the new regulations to NPCU's. Please remember the end user of the Corporate system, as Corporates play a critical role in the day-to-day operations of NPCUs.

Response to ANPR

Payment System Proposals

1. Should payment system services be isolated from other services to separate the risks?
    a) If so, what is the best structure for isolating these services from other business risks?

    Response: **I see no advantage of separating payment systems from the other business lines**. **This will lead to additional costs and duplicate back office functions to run two separate organizations. NCUA should be concerned with improving the cooperative business model in existence today, so NPCU's do not have to rely on for-profit or banking companies to provide these services.**

2. Should there be a charter that strictly limits Corporates to operating a payment system only?

    Response: No. There are alternatives today, which are more expensive and more difficult to work with. The current Corporate payment system allows for the benefit of synergies and aggregated cost savings, while providing a simplified business model for NPCUs to access. For sure, all small to mid-size NPCU's would see greatly increased costs in this business model.

3. Are there sufficient earnings potential in offering payment systems to support a limited business model that is restricted to payment systems services only?

    Response: If there was a business model that made money on only the payment side, I am sure that a "Banker" type would have developed the model and been making money on it already. This leads me to believe that this proposed model would not be an efficient one.

    Please remember that all businesses must make a profit and cannot run as the Government has in this country for several decades. The current business model has worked since the mid-seventies. If it were not for the largest banks and mortgage companies, in combination with weak rating agencies and government oversight of the mortgage industry, this ANPR would not be happening.

Liquidity and Liquidity Management Proposals

1. What steps should be taken, and by whom, to preserve and strengthen Corporates' ability to offer liquidity services?
   Response: Our Corporate has provided liquidity services for three decades. The situation the entire country is in is not limited to Corporates or NPCU, but due to worldwide financial markets seizing up.
   From my viewpoint, all the systems developed and put in place worked just fine, as the CLF was activated for the first time I can remember. Maybe the only weakness was that the CLF limits were not adjusted as the CU industry grew. Maybe adjusting the CLF limits, tying them to the growth of our industry and allowing the Corporates direct access to the CLF would have improved the situation.
   SunCorp has always been able to provide settlement loans and term loans. On the investment side, SunCorp has provided overnight, short term, and midterm investment opportunities. All this tied into one company, which is trustworthy. They offered these services at good prices, lower fees, and a very efficient methods for our staff to access these services. If our size institution were to have to work with a for profit bank, our costs would go up, our staff time would increase, and we would be providing a profit to the same industry that is attempting to put credit union's out of business.

2. Should the NCUA consider limiting a Corporate's ability to offer other specific types of products and services in order to preserve and defend the liquidity function?
   a) What specific types of products and services should Corporates be authorized to provide?

   Response: I don't have the knowledge necessary to determine what products or services should be developed or limited by a Corporate CU. Shouldn't products and services be develop through competitive types of reasons – let the markets decide. Then the regulators job is to develop guidelines to follow.

   Should the NCUA add aggregate cash flow duration limitations to Part 704?
   b) If so, describe how this requirement should be structured, and also identify how such limitations would benefit liquidity management.

   Response: The NCUA developed base, base plus, and other investment authorities that Corporates enjoyed, which has lead to this situation.
   Why does the NCUA believe that rules can be set to eliminate all risk? Again, the system put in place has worked through a series of

worst-case events. Maybe tweaking what is in place today is the answer, not making major changes and adding regulations that are more indepth.

c) What cash flow duration limits would be appropriate for Corporates particularly in an evolving interest rate market with previously unseen credit risk spreads?

Response: Does the banking sector have these types of limits? If so, maybe a review of how these may benefit our cooperative structure should be reviewed, but decisions should not be made during the crisis.

<u>Field of Membership Issues</u>

1. Should the agency return to defined FOMs to address what they perceive as risk associated to expanding FOM?

   Response: A part of me says yes and a part of me says no. I will start with the No – competition normally brings about a better product, service, etc. and is better for an industry. There are several products and services that competition has brought to Corporates and NPCU's, which improved us.

   What concerns me the most is the negatives that I have seen from the competition. The WesCorp's of the industry marketed to all the billion dollar NPCU's, then to the five hundred million dollar NPCU's, and offered them payment system contracts and rates difficult to match by a majority of Corporates. This began the bleeding of a majority of corporate credit unions, as the largest NPCU's began their exodus to the West coast giant. How was WesCorp able to offer this extraordinary value? It appears by taking excessive concentration risks, which will now be paid for by all NPCU's. Who really benefited – the users of WesCorp. Who is paying the price – all of us.

   Corporate CU's origin was not to be the "biggest" or to provide the best pricing and best rates to only the largest NPCU's. There origin was to support all NPCU's in the payment system and liquidity areas.

   Why did the regulator allow the original purpose to be changed? Allowing national fields of membership changed the face of the industry! I doubt the reason why the "regulator" opened up the FOM to a national charter, was to create competition that may have lead to unnecessary risk taking. This is a perfect example of how making regulatory changes, can change an industry and inadvertently cause more problems!

Expanded Investment Authority

Currently, Part 704 provides an option by which Corporates meeting certain criteria can qualify for expanded investment authority.

1. Does the need for expanded authorities continue to exist?
   a) If so, should NCUA modify the procedures and qualifications by which Corporates currently qualify for expanded authorities?

   Response: I do not have the background to determine the advantages or disadvantages to the different levels of expanded authorities or if more should or should not be granted.

   One thing that is apparent to me is that the more risk you take the more capital a Corporate should retain. It would make a lot of sense that since Corporates serve an industry that has a great deal of car and real estate loans, that the Corporate should not have more of the same. Heavy concentration levels of real estate loans at NPCU's and then at the Corporate, leave little doubt that there is too much risk when combined.

   Question? Has the NCUA or can the NCUA determine that Corporates with higher levels of authority caused all of the problems? Alternatively, have or can you determine that the methodology of how the regulations were written, was the problem? On the other hand, is it that the authorities were not allowed to be high enough?

   Change for the sake of change is not the answer. Analysis of a situation should be made and appropriate improvements discussed and established – but not in the middle of the crisis.

   b) If so, what should the new standards be?

   Response: Standards should be appropriate to the risks taken, more risk more capital. NPCU's have been asking for risk based capital for years, but the NCUA has not moved on something that makes a great deal of sense. So whatever you do – have common sense, which allows a corporate credit union to choose a model to work in and set appropriate guidelines for capital

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2. Should NCUA reduce the expanded authorities available?
   a) If so, which ones?

   Response: See above.

3. Alternatively, should any of the limits in existing expanded authorities be reduced or increased?
   a) If so, which ones?

   Response: See above

4. Once granted, should NCUA require periodic requalification for expanded authorities?
   a) If so, what should be the timeframe?

   Response: Once a corporate cu has been granted the authorities, the annual exam should be sufficient to determine if the organization is managing the authority level properly. Let's not add additional costs and time to the Corporate CU, which in turn lowers returns to the NPCU's.

<u>Structure: Two-tiered System</u>

The Corporate system is made up of two-tiers: a retail network of Corporates that provide products and services to NPCUs, and a single, wholesale Corporate (U.S. Central) that exclusively services the retail Corporates.

1. Does the two-tier Corporate system in its current form meet the needs of credit unions?

   Response: It is difficult for a NPCU to clearly understand all the functions that US Central performed and how it enhanced the retail Corporate CU's. It appears to have functioned well, for a majority of the Corporates before this bank/mortgage caused crisis. I say that as if it had not, the Corporates would have made or recommended changes to the system.

   There may be better ways to utilize the structure, but this should be left to the experts and the market place. A regulator should not decide the business model.

2. Is there a continuing need for a wholesale Corporate credit union?
   a) If so, what should be its primary role?

   Response: As stated above this decision should be made by the Corporates, not the regulators.

3. Should there be a differentiation in powers and authorities between retail and wholesale Corporates?

Response: This is a difficult question for a NPCU to answer. The Corporates are the owners; they and the market place should determine this.

4. Does the current configuration result in the inappropriate transfer of risk from the retail Corporates to the wholesale Corporate?
   Response: If this is the case, then this is where a regulator should have stepped up and did their duty.

5. Should capital requirements and risk measurement criteria (e.g., NEV volatility), be different from those requirements that apply to a retail Corporate credit union?
   Response: The greater the risk equates into higher capital requirements and stronger NEV management.

Corporate Capital

NCUA is considering revising various definitions and standards for determining appropriate capital requirements for Corporates. These changes would bring the Corporate capital requirements more into line with standards applied by other federal financial regulators.

Another issue under consideration is whether to require a certain level of contributed capital from any natural person credit union seeking either membership or services from a Corporate.

Core Capital

Under the current rule, core capital is defined as retained earnings plus paid-in capital.

1. Should the NCUA establish a new capital ratio that Corporates must meet consisting only of core capital, and if so, what would be the appropriate level to require?
   Response: Primarily a Corporate CU is a liquidity facility and the balance sheet can rise and fall greatly over a short period of time, as NPCU's place their excess funds within. The current system of Capital accumulation is a slow process in comparison to the fluctuation, which can happen on the balance sheet. A flexible approach must be determined for Corporate CU, so they can serve NPCU's.
   Based on decisions made to the business model a group of NCUA employees with input from industry experts should determine appropriate capital levels based on the risks taken. I am assuming that there are other models that could be used to begin with, unless those models have not worked well in this crisis either.

2. What actions are necessary to enable Corporates to attain a sufficient core capital ratio?
   Response: With the current situation and capital ratios declining by the week, if the NCUA wants capital to increase quickly secondary capital issued to non-credit union entities may be the only solution.

   What would be an appropriate time frame for Corporates to attain sufficient capital?
   Response: Depends on how the ratio is to be calculated and what will be allowed to be called core capital.

3. What is the appropriate method to measure core capital given the significant fluctuation in Corporate assets that occur?
   Response: Depending on the risk model chosen by the Corporate appropriate means to increase and decrease capital is required. Some sort of risk based capital approach.

4. What is the correct degree of emphasis that should be placed on generating core capital through undivided earnings?
   Response: A balanced approach will be needed between earnings generated through the income statement and other potential capital to be used in the calculation.

   Should there be a requirement that a Corporate limit its services only to members maintaining contributed core capital with the Corporate?
   Response: This recommendation would immediately generate additional capital to the network. It would force NPCU's to contribute more if they are going to uses multiple providers. Maybe, the amount of capital placed at a 2nd corporate could be less than in the first, but additional capital should be required.

   Offer any other suggestions or comments related to core capital for Corporates.

<u>Membership Capital</u>

1. Should the NCUA continue to allow membership capital in its current configuration, or should the agency eliminate or modify certain features, such as the adjustment feature, so that membership capital meets the traditionally accepted definition of tier two capital?
   Response: All NPCU capital is at risk, so all capital should be included.

2. Should adjusted balance requirements be tied only to assets?

3. Should the NCUA impose limits on the frequency of adjustments?
   Response: The market place should determine how the model is ran, the regulator should only be involved in the setting the standards.

4. Should the agency require that any attempted reduction in membership capital based on downward adjustment automatically result in the account being placed on notice, within the meaning §704.3(b)(3), so that only a delayed payout after the three-year notice expires is permissible?
   Response: If this model is used to allow NPCU's to increase their balance to support an increase in the balance sheet, than no. A reduction should be allowed by the NPCU when Corporate assets shrink.

5. Should there be a requirement that any withdrawal of membership capital be conditioned on the Corporate's ability to meet all applicable capital requirements following withdrawal?
   Response: Depends on the model agreed upon.

Risk-based Capital and Contributed Capital Requirements

1. Should NCUA consider risk-based capital for Corporates consistent with that currently required of other federally regulated financial institutions?
   Response: Yes, the NCUA should consider all potential models but only if it improves the Corporate and the NPCU's.

2. What regulatory and statutory changes, if any, would be required to effectuate such a change?
   Response: I am unsure, you are the expert on the regulatory side, and you should make the appropriate changes to the necessary regulation.

3. Should a natural person credit union be required to maintain a contributed capital account with its Corporate as a prerequisite to obtaining services from the Corporate?
   Response: Yes, as discussed earlier. It would increase capital in the network immediately.

4. Should contributed capital be calculated as a function of share balances maintained with the Corporate? What about using asset size?
   Response: I would hope that the NCUA staff and Corporate staffs could work together and develop appropriate measurements and denominators.

Permissible Investments

NCUA is considering whether the Corporate investment authorities should be constrained or restricted. Presently, Corporates have the authority to purchase and hold investments that would not be permissible for natural person FCU members under Part 703 (or, in some cases, outside of what is authorized for a state chartered credit union).

1. Should the NCUA limit Corporates' investment authorities to those allowed for NPCUs?
   Response: No. Many NPCU's use the corporate to earn a competitive rate on their investments; if they were limited to the same authorities, it would limit their effectiveness to the system.

2. Should the NCUA prohibit certain categories of, or specific, investments?
   Response: As mentioned earlier NPCU's and the Corporates are heavily concentrated in the same areas today. It appears that additional investment areas should be allowed for Corporates.

Credit Risk Management

1. Should the NCUA limit the extent to which a Corporate may rely on credit ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs)?
   Response: The NRSRO should be held accountable for being in bed with the bankers and mortgage companies, period. Whoever oversees these organizations should be enforcing and/or improving their regulations. The normal process, in a well run company, would be to identify the origin of the problem, identify potential solutions and then make changes.
2. Should the NCUA require more than one rating for an investment, or require that the lowest rating meet the minimum rating requirements of Part 704?
   Response: The question to you is would this have made a difference in the current crisis? If so, then improve the regulation. If not, do not add more just so your agency can show congress how many more pages of regulations you have accomplished. This is the problem for this entire country – it is all about show! Think long term!

3. Should the NCUA require additional stress modeling tools in the regulation to enhance credit risk management?
   Response: If there is value in doing this for NPCU's and members. Is this not what the rating agencies are paid to accomplish already?

4. Should Part 704 be revised to lessen the reliance on NRSRO ratings?
   Response: Did we not just ask this question above?

5. Identify any other changes that may be prudent to help assure adequate management of credit risk. Considerations should include whether Part 704 should be revised to provide specific concentration limits, including sector and obligor limits.

6. What specific limits would be appropriate for Corporates?

7. Should Corporates be required to obtain independent evaluations of credit risk in their investment portfolios?
   a. If so, what would be appropriate standards for these contractors?

   Response: I assume that this is similar to the Pimco study that USC and WesCorp are going through on their portfolio. At the cost shared by NCUA and all the insured NPCU's. I believe this would be cost prohibitive at the individual Corporate level. Again, this event was not caused by the Corporates or at the NPCU level; maybe if the FDIC, rating agencies, and other federal government officials were doing their jobs, we would not be considering this.

8. Should Corporates be required to test sensitivities to credit spread widening, and if so, what standards should apply to that effort?
   Response: From my exposure and what I have read the credit spreads, where the largest in history, by a wide margin. If we plan for a 200-year event, every day, every week, and every month, maybe consumers will pay 25% car loan rates. Then Corporates can pass on the costs of over regulation.

<u>Asset Liability Management</u>

Under past rules, the NCUA required Corporates to perform net interest income modeling and stress testing. The agency is considering re-instating that requirement in light of the current market. Alternatively, the agency may consider some form of mandatory modeling and testing of credit spread increases.

1. Should the NCUA require Corporates to use monitoring tools to identify these types of trends, including specifically comments about tangible benefits, if any, which would flow from these types of modeling requirements?

Response: Possibly. Increased testing and modeling may have been beneficial. Would it have prevented the crisis? If not, why do something that adds no benefit.

Corporate Governance

1. Should the NCUA require that a director possess an appropriate level of experience and independence?
   Response: Credit Unions are based on a Cooperative business model and as such, they elect Board of Directors from their memberships. As such, the owners decided on the experience levels during the election process.
   Question - Are the people responsible for the crisis from the for profit sector? If yes, do those organizations have these types of requirements from their regulator? If so, it obviously these requirements did not work.
   As far as independence, what is the NCUA thinking about? Currently there is independence, as each board member does not work for the corporate. Are you thinking of hiring non-owners to be on the boards? That sounds like a new assortment of issues you are opening.

2. Should the agency set term limits, allow compensation for Corporate directors, and requiring greater transparency for executive compensation?
   Response: Each individual organizations board of directors should determine term limits as a part of their structure.

   On the compensation front, some form of compensation would be appropriate for all the time that director puts in. Would have paying the directors changed the outcome during this crisis? I think not – greed sure did not stop the for-profit sectors Board of Directors from implementing misleading lending to unsuspecting consumers. If anything, it probably encouraged it, so they could earn more.

   How does the agency really think exposing CEO compensation would add value to any decision made in our industry? In a majority of NPCU's it would only cause a human resource nightmare. Maybe you should be finding out the payoffs in a majority of the mergers taking place, and stop these mergers. A majority of the mergers taking place are not for the benefit of members, but for the benefit of senior executives, at both institutions. Is the agency not responsible to the members of the credit unions? Please, do not tell me you

attempt to stay out of business decisions, forced business decisions are made by your organization and forced upon all of us for the sake of "safety and soundness" all the time.

3. Is the current structure of retail and wholesale Corporate credit union boards appropriate given the Corporate business model?
   Response: Unsure of what you are asking in this area, but the business model is a cooperative model. The board of directors should be elected through the owners. Corporate Credit Unions are definitely a different animal than NPCU's, so training requirements of these officials may be appropriate.

4. Should NCUA establish more stringent minimum qualifications and training requirements for individuals serving as Corporate credit union directors?
   a. If so, what should the minimum qualifications be?

   Response: A training requirement may be beneficial to the owners and to the Corporate itself. Setting minimum qualifications is not the place of the regulator; it is up to the owners to elect those they feel are more qualified than other candidates.

5. Should the NCUA establish a category of "outside director," (persons who are not officers of that Corporate), officers of member natural person credit unions, and/or individuals from entirely outside the credit union industry?
   a. Should the NCUA require that Corporates select some minimum number of outside directors for their boards?

   Response: What is the stake of these "outside" directors? They are not owners so why would they even be involved? Are you suggesting that we pay to hire potentially improved board members? Did the paid, Board of Directors, improve the organizations that caused this crisis?

6. Should U.S. Central be required to have some directors from NPCUs?
   Response: The NPCU's are not considered users of US Central, but do have a stake due to the model of insurance credit unions have. Not sure if it would have changed anything, but could not be any worse than having non-owners set at the table.

7. Comment is also sought on whether Corporate directors should be compensated, and, if so, whether such compensation should be limited to outside directors only.
   Response: Compensating Directors "may" improve the quality of board members, but there is not a guarantee with that. If outside directors are involved compensating them only, does not seem appropriate – pay all or none.